

VZCZCXRO6436
RR RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHME #1490/01 1500020
ZNR UUUUU ZZH
R 300020Z MAY 09
FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC 6719
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUEHOT/AMEMBASSY OTTAWA 2618

UNCLAS SECTION 01 OF 03 MEXICO 001490

SIPDIS
SENSITIVE

STATE FOR WHA/MEX

E.O. 12958: N/A
TAGS: [ECON](#) [EIND](#) [ETRD](#) [KFLU](#) [MX](#)
SUBJECT: FLU AND TOURISM: WHEN WILL MEXICO REBOUND?

11. (U) This is the fourth in a series of cables reporting on the economic impact of the influenza outbreak in Mexico. It incorporates reporting from across Mission Mexico.

12. (SBU) SUMMARY: The influenza epidemic struck a body blow to Mexico's number three income generator, tourism. Government sources estimate the loss could reach USD 2 billion, a full 15% of 2008 earnings. Cruise and bus lines are predicting a complete recovery, but the scene is bleaker inside the hotel business. Where different regions of the country felt the bite of global recession and drug violence at mixed intensity in the months ahead of the flu, H1N1 effectively shut down the industry. Experts disagree on how long recovery will take, but a bargain-priced peso, aggressive government and private sector marketing, and some favorable demand-side signals argue for a return in force by autumn at latest. END SUMMARY.

SURVEYING THE DAMAGE FROM MEXICO CITY

13. (U) 2008 actually was a good year for Mexican tourism, even with recession at year's end. The sector earned USD 13.3 billion and welcomed 1.3 million more tourists than the year prior for a total of 26.2 million visitors, thanks in part to increased numbers at the border. U.S. citizens make up 90% of international visitors. Canada ranks second, and has boosted its numbers from 600,000 to 1.3 million annual arrivals in the last four years. Data just published from first quarter 2009 show the weakened peso is attracting tourists but impacting tourism revenue. International tourist arrivals were up on the whole versus the same quarter 2008 -- up 35% at the border but down 5% among the heavier-spenders that travels deeper into the country. Nonetheless, receipts dropped 8.8% for that period. First quarter results also indicate fewer Mexicans are travelling abroad -- 23.7 million versus 27.4 million a year earlier, and against a peak of 32.1 million in first quarter 2005. Prior to the flu, business destinations Guadalajara and Monterrey were doing poorly due to recession; Puerto Vallarta, Acapulco and especially Cancun enjoyed solid spring breaks despite widely-reported drug violence.

14. (SBU) The Secretariat of Tourism worries that Mexico will get over the impact of H1N1 just in time for the autumn low season, losing the profitable summer months. The Secretary of Tourism's chief of staff estimated total lost revenue this year due to flu and recession at USD 1 to 2 billion. An ad campaign targeting domestic travelers launched on 21 May. Representing 84% of all tourist revenue, domestic tourists are the key to recovery -- albeit not at the luxury end of the market, where foreigners predominate. Now that the CDC has downgraded its travel warning May 15th, the Secretariat of Tourism expects to begin an international ad campaign to follow "about a week" after the start of the domestic campaign.

15. (SBU) CRUISE LINES: Cruise lines expect a quick rebound. The downgrade of CDC's travel warning was the necessary condition for Carnival and Royal Caribbean to speed resumption of port calls to Mexico from the initially announced 15 June. Royal Caribbean is moving faster than Carnival, although Carnival has a more extensive

summer cruise schedule in Mexico (by their estimate, 80% of summer cruise calls). Royal Caribbean returned a fully-loaded ship to Cozumel on 28 May. Secretary of Tourism Elizondo met the first cruisers dockside. Carnival will restore port calls within the week and sees little lingering reluctance among passengers to debark in Mexico. Smaller lines resumed service to Pacific Riviera ports in mid-May.

¶6. (SBU) BUS LINES: Intercity bus lines are the major mode of mass transportation for domestic tourists. The country's largest station, the Terminal Central del Norte in Mexico City, took a 60% hit in passenger volume at the influenza panic's height. As of 18 May, terminal managers reported volume had returned to normal. While bus companies fear budget airlines and increased car ownership, they are confident the recovery from influenza is well underway.

¶7. (SBU) HOTELS: Mexico's national hotel association calls current occupancy rates the lowest in the country's history and estimates job losses in the sector could reach 100,000. Mexico City and many resort towns bottomed out in early May below 10% occupancy. While in good times Mexico's 584,000 hotel rooms do not want for guests, the combined recession, influenza, and tight credit market have led to construction freezes on at least five new major Mexico City luxury hotel developments in the last month. In Monterrey, the occupancy rate is now 25% versus 70% during the same period in 2008. The city saw 10,600 room cancellations (apart from reservations never booked) and 2,100 cancelled events in the 2 peak weeks of the influenza. While business travel is recovering more rapidly than tourism with the end of the CDC travel warning, business conferences (especially lucrative for hotels) called off during the outbreak for the months ahead have been shifted to other countries and will not

MEXICO 00001490 002 OF 003

be rescheduled. The calendar of government-sponsored expositions is more robust. Expo Guadalajara cancelled 26 expo events and lost an associated 60,000 visitors during the outbreak, but will continue with most upcoming expos as planned and reschedule many of those cancelled.

BREAKDOWN BY REGION

¶8. (U) BORDER TOURISM: Tourism at many points along the border was down prior to the H1N1 outbreak due to narco violence and to a lesser extent the economic downturn. The H1N1 outbreak and resultant hotel and restaurant closures further damaged an already suffering industry. Border towns traditionally cater to American cross border shoppers and "medical tourists" who visit Mexican pharmacies, dentists, and medical providers. Hunting, fishing, ecotourism and beach vacations are also popular in some areas. Merchants in border towns have complained in recent years that drug violence was destroying the tourism industry. Many tourist-based businesses have shut down in Nuevo Laredo, where tourism is now largely non-existent. In Ciudad Juarez, border tourism has dropped 25-30% over last year, mostly due to border violence. Restaurants in Ciudad Juarez report normal sales during the day, but business drops off 70% after 7 PM. Hotel and restaurant occupancy rates were already down 60% in Northern Sonora and fell to 10% during the H1N1 outbreak. Mexican tourists who otherwise would have vacationed in Mexico crossed to nearby U.S. resorts such as South Padre Island when restaurants, beaches and other establishments in Mexico closed. Against this evidence of cities suffering dramatic falloffs along the border, the Secretariat of Tourism points to border trippers as leading growth in visitor numbers in 2008 and 2009.

¶9. (U) BEACH TOURISM: Violence and recession had only a mild effect on beach tourism at the largest Mexican resorts, with numbers down less than 10% during the first quarter of 2009. When H1N1 hit in late April, at the tail end of peak winter season, numbers plummeted 50% or more against previous years. Officials expect a slow recovery, but are launching a multi-pronged strategy urging Mexicans to vacation at home; reaching out to tour consolidators, travel agencies, and charter companies to reactivate long-standing client contacts; and using traditional media and social networking sites to promote "third party spokespersons," for example U.S. students who

visit Mexico speaking to students and Canadians residing in Mexico speaking to Canadians.

¶10. (U) Pacific Coast: Puerto Vallarta accounts for 11% of the state of Jalisco's GDP and 90% of the local population earns a living from tourism. According to economist Jaime Lopez Delgadillo, hotel, restaurant and entertainment industry losses will cost the state of Jalisco 2% of its GDP, or USD 640 per family. Vallarta hotel occupancy rates are down to 20%, while arriving flights are 25% full, and buses are operating at 30% capacity. Several major hotels have temporarily closed due to low occupancy.

¶11. (SBU) The Yucatan: In the main tourist areas in Quintana Roo (Cancun, Playa del Carmen, Mayan Riviera), tourists -- 85% of whom are foreign -- spend on average USD 200 per person per day in hotel, food, and excursions. May hotel occupancy rates in Cancun have dropped to 27%, compared with 73% in May 2008. As of 14 May, 30 hotels in Cancun had closed and restaurants were at 20% capacity. Current estimates show 20,000 workers displaced by recent shutdowns and Cancun officials are clearly concerned about social problems that may result as a consequence of increased unemployment. Merida and Cozumel occupancy are also down more than 50% for this time of year. Tourism is the primary industry in the resort areas of Quintana Roo. Services such as scuba diving, amusement parks, and archeological ruins all rely on business from tourists. Cozumel, which attracts 44% of all cruise line port calls in Mexico (2 million-plus passengers per year, spending USD 90 per visit), was hit particularly hard when ships diverted.

¶12. (U) INLAND TOURISM: Business travel to Mexico dropped significantly with the flu, as many organizations cancelled meetings, conferences and gatherings. Sites in the center of the country that cater to Mexican and international business travelers suffered significant losses but are expected to recover quickly. Museums and cultural sites in central Mexico are emptier than usual, including important Aztec and Maya archaeological sites. Many school classes have cancelled field trips until the end of the school year, causing some museums to consider closing their doors several days a week. Plans to extend the school year to replace the weeks lost to closures worry some domestic tourism businesses. Cuernavaca, a center for Spanish language education, receives 6,000 international students annually who spend on average USD 1,800 per stay. The city reports most international students have cancelled their summer 2009 training and up to 30 of Cuernavaca's language training centers will be forced to close.

¶13. (SBU) COMMENT: H1N1 influenza is the most severe of several

MEXICO 00001490 003 OF 003

blows to Mexico's tourism industry in the past year, yet it may also prove to be the most transitory. The global economic downturn impacted business travel from last fall, especially in industrial centers like Guadalajara and Monterrey. While high profile drug violence kept tourists away from some border cities, it affected tourism at the major Mexican resorts and along the border as a whole less than expected. Business travel and domestic tourism took big losses at the height of the influenza, but will recover more quickly than the international tourism segment. And even here, veteran industry operators like Carnival and Mexican bus lines see in their demand data signs that, if travelers are not yet rushing to book tickets to Mexico today, nor do they seem scared by the destination.

END COMMENT.

BASSETT